McGraw-Hill Ryerson Limited

2001 Annual Report

www.mcgrawhill.ca

Corporate Profile

McGraw-Hill Ryerson Limited has a long and illustrious history. It is built on the solid foundations of two respected publishing companies — McGraw-Hill Book Company, now known as The McGraw-Hill Companies, Inc., and The Ryerson Press.

The Company publishes and distributes educational and professional products in both print and non-print media. These products are designed to fulfill the individual needs of customers by providing effective and innovative educational and learning solutions. Product offerings include text and professional reference books, multimedia tools, and teaching, assessment, support and monitoring solutions. The Company is committed to providing Canadians with material of the highest quality for their education and enjoyment.

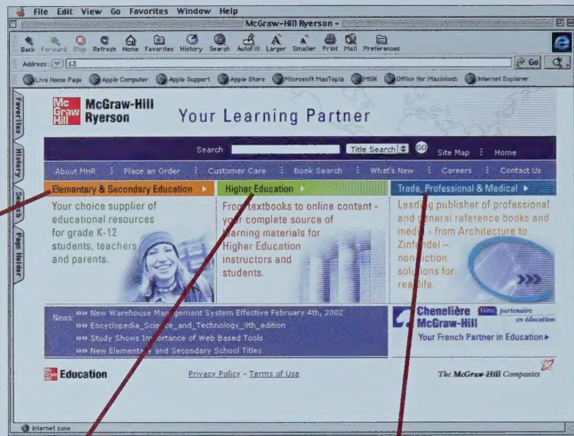
The Company is structured on a market-focus basis and operates in three primary market areas through the following revenue divisions:

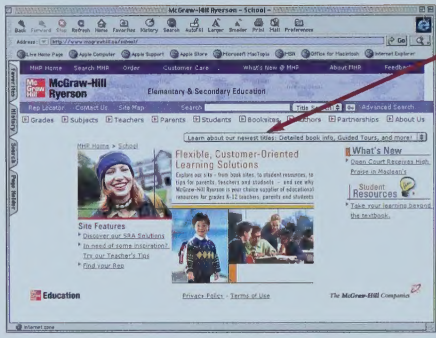
- Higher Education: post-secondary education, including universities and community and proprietary colleges
- School Division: secondary and elementary schools
- Trade, Professional and Medical Division: general interest non-fiction, business and computer disciplines; training and professional development; and medical.

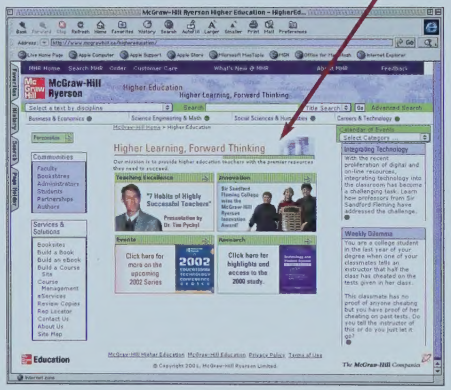
McGraw-Hill Ryerson is a public company operated independently, in close cooperation with various divisions and international subsidiaries of its majority shareholder, The McGraw-Hill Companies, Inc. Through this cooperation, the Company benefits from its access to the significant product, market, and operational expertise of The McGraw- Hill Companies, Inc.

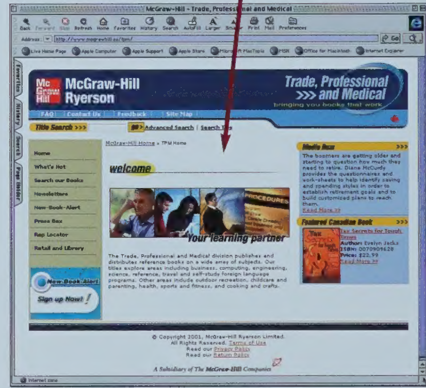
In 2001 a new website was developed by McGraw-Hill Ryerson Limited. With this in mind some of the features of this site have been presented in our Annual Report.

www.mcgrawhill.ca









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McGraw-Hill Ryerson at a Glance

	KEY MARKETS	PRIMARY PROGRAMS	KEY ISSUES AND TRENDS	OUTLOOK
Higher Education Division	Universities Community Colleges Career Colleges	Business Economics Computer and Information Technologies Science Engineering English Psychology Social Sciences E-Services	Enrolments are increasing. Growth in web-based teaching, and learning solutions. Mixed-mode educational models dominate. Content-enabling technologies will evolve and accelerate acceptance of e-content. Growing interest in wireless and PDA-based applications in education. Consolidation among E-Learning companies.	Double-digit growth through a focus on integration strategy (I-Learning). Expansion of e-product and services offering, and e-business leadership.
School Division	Secondary Schools Elementary Schools	Mathematics Science Social Studies Literacy English Information Science Special Education	Low growth in student enrolment. Flat government spending on education. Focus on academic standards and accountability. Movement towards centralized curriculum.	Increased focus on accountability for learning outcomes. Increased demand for customized products. Growing interest in multimedia products and technological support.
Trade, Professional and Medical Division	Booksellers Distributors Libraries Non-traditional booksellers Direct to professionals	Business Computer General Interest Scientific Technical Medical Training	Consolidation of book retailing market. Demand for technical and professional information in print and electronic formats. Demand for computer titles. Growth in SOHO (small office/home office) market. Competition from online retailers.	Increasing purchase power of national accounts. Escalating demand for timely information. Pressure on availability, price, and service caused by the migration to online sourcing and purchasing. Market expansion. Increasing demand for digital versions.
Chenelière/ McGraw-Hill	By publishing under a joint imprint, McGraw-Hill Ryerson Limited and Les Éditions de la Chenelière are able to concurrently publish French and English editions of secondary and post-secondary titles.			

Vision

To be recognized as the leading Canadian publisher of educational solutions for lifelong learning and enjoyment.

Mission

To be the Canadian leader in developing and marketing quality information products and services to selected educational, professional, and consumer markets through innovation, teamwork, and partnerships. We will provide exceptional value to customers, growth and recognition opportunities for employees, and outstanding financial performance to our shareholders.

Culture

At McGraw-Hill Ryerson, we will work together to:

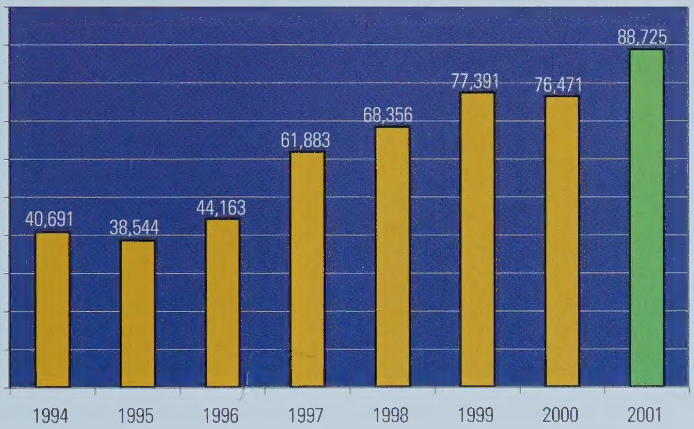
- exceed our customers' expectations, by recognizing and anticipating their needs
- use a systems approach in planning and communicating strategies to meet challenging company objectives and financial goals
- enhance McGraw-Hill Ryerson's image in the marketplace, by promoting creative ideas, developing partnerships and launching selected innovative products
- encourage a winning spirit and a positive working environment, developing supportive, appreciative, and rewarding working relationships in a learning organization
- create a market-driven technology-enabled organization
- reward creativity, innovation, and risk-taking
- recognize diversity by treating individuals with respect and dignity

Financial Highlights

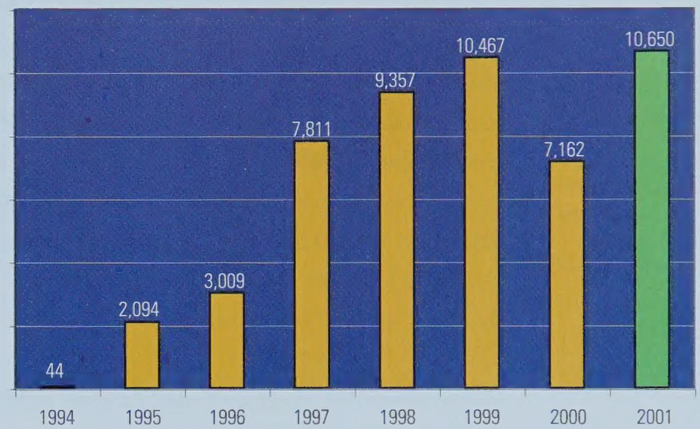
(In Thousands of Dollars, except Per Share Data)

	2001	2000	1999	1998	1997
Revenue and Earnings					
Revenue	**$ 88,725**	$76,471	$77,391	$68,356	$61,883
Net income for the year	**$ 6,631**	$ 4,639	$ 5,849	$ 5,207	$ 4,448
Cash Flow					
Cash provided by operating activities	**$ 23,353**	$ 413	$16,060	$ 7,501	$ 5,963
Additions to capital assets	**$ 1,571**	$ 1,185	$ 968	$ 541	$ 1,046
Net increase/(decrease) in cash during the year	**$ 13,174**	$ (8,120)	$ 7,872	$ 4,428	$ 2,419
Closing Financial Position					
Total shareholders' equity	**$ 54,444**	$48,891	$46,006	$41,155	$36,747
Total assets	**$ 86,054**	$73,821	$74,689	$62,348	$55,005
Per Common Share					
Basic – net income per share for the year	**$ 3.32**	$ 2.32	$ 2.93	$ 2.61	$ 2.23
Diluted – net income per share for the year	**$ 3.32**	$ 2.32	$ 2.93	$ 2.61	$ 2.23
Dividends	**$ 0.54**	$ 0.54	$ 0.50	$ 0.40	$ 0.20
Book value	**$ 27.27**	$ 24.48	$ 23.04	$ 20.61	$ 18.40
Market value at December 31	**$ 19.00**	$ 16.00	$ 22.75	$ 22.00	$ 17.50
Financial Ratios					
% Return on average assets	**8%**	6%	9%	9%	8%
% Return on sales	**8%**	6%	8%	8%	7%

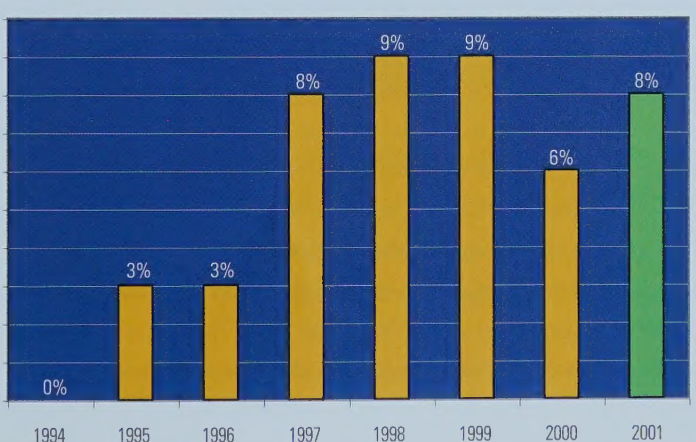
Revenue ($000)



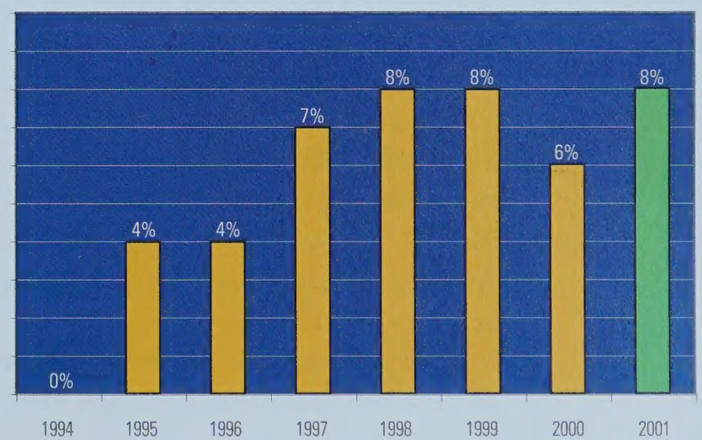
Income from Continuing Operations Before Income Taxes ($000)



Net Income Return on Average Assets



Net Income Return on Sales



Message to the Shareholders

McGraw-Hill Ryerson completed 2001 with very strong results despite significant challenges in the retail market. Total revenues grew 16.0% over 2000, while earnings rose 42.9%. The Higher Education and School Divisions both exceeded 20% sales growth rates and gained share in their respective markets. In the retail market, where McGraw-Hill titles are leaders in the computer and business book segments, there was an important shift away from these subjects as a result of September 11, decreased economic activity, and a lack of innovative computer products. These problems were heightened by the continued supply-chain problems of a major retailer, resulting in significantly increased returns.

The Higher Education and School Divisions both exceeded 20% sales growth rates and gained share in their respective markets

Looking toward 2002, the Company expects to build on the momentum of the Higher Education and School Divisions. Spending is expected to be strong in the educational sectors of the economy, especially for early literacy in the elementary market and all subject areas in the post-secondary market. The growth in the Kindergarten–Grade 3 literacy market will enable McGraw-Hill Ryerson to take advantage of the acquisition of Wright Group Publishing by The McGraw-Hill Companies, Inc. The excellent reputation of this collection of early literacy and mathematics titles will provide a solid basis to continue the rapid growth of the School Division.

Despite significant challenges in the retail market, McGraw-Hill Ryerson completed 2001 with very strong results

McGraw-Hill Ryerson's continued investment in developing Canadian college texts and the strong list of technology-enabled learning materials from The McGraw-Hill Companies' Higher Education Division will provide an excellent springboard to rapid growth in the post-secondary market.

H. Ian Macdonald, Chairman of the Board and John D. Dill, President and Chief Executive Officer

Significant improvement in 2001 results reflects the Company's long-term commitment to being a market-focused publisher. The extensive use of market research and the constant contact with decision makers in the various markets served by McGraw-Hill Ryerson is the foundation of its innovative products and the increasing number of services provided to educators and professionals in Canada. This market-focus effect is magnified by a constant monitoring and analysis of the resources of the McGraw-Hill Companies. As one of the world's largest educational publishers, McGraw-Hill has product development resources in the United States, Australia, India, Mexico, and Europe that are readily available for adaptation to the Canadian market.

In addition to the Company's market focus and new product resources, significant new systems capacity will be added in April of 2002. McGraw-Hill Ryerson is the lead company of all of the McGraw-Hill Education units to develop an enterprise-wide system upgrade based on the Oracle 11i system. This will make McGraw-Hill Ryerson completely web-enabled by the end of 2003 or sooner. The potential for e-business and supply chain improvements when this system is completely implemented is significant and will contribute to our ability to generate increasing shareholder returns.

In closing, we would like to commend each and every member of McGraw-Hill Ryerson for having worked tirelessly to transform the Company into a market leader and for having embraced change during challenging times. These qualities have positioned the Company admirably to face the future.

H. Ian Macdonald, O.C., LL.D., D.UNIV., D.LITT.
Chairman of the Board of Directors

John D. Dill
President and Chief Executive Officer

Corporate Governance

A primary concern of the Corporation's Board of Directors has been, and will continue to be, the effective governance of McGraw-Hill Ryerson Limited on behalf of shareholders. The Corporation's Corporate Governance Committee meets regularly to review corporate governance matters. A review of the Corporation's governance policies begins on page 8 of the Management Information Circular that accompanies this Annual Report.

Higher Education Division

Sales Performance

The year 2001 proved to be outstanding for the Higher Education Division. For the third year in a row, the Division outpaced the industry on all key financial measures, including 20.3% year-over-year net sales growth and a 31.5% growth in divisional contribution. The Division's success was broad-based with all three imprint teams achieving strong gains. Canadian product increased 22.9% while U.S. product increased 25.0% over prior year, or 18.0% excluding the Mayfield acquisition made by The McGraw-Hill Companies, Inc. in 2001. The Division's significant growth was in key disciplines such as mathematics and statistics, computer science, finance, biology, and psychology. The key to success in 2001 continued to be the Division's outstanding sales, marketing, and editorial talent, combined with significant growth in the Canadian list, leading media technology products, innovative faculty development services programs, and the commitment and delivery of service excellence by the McGraw-Hill Ryerson support divisions.

The year 2001 proved to be outstanding for the Higher Education Division...a 20.3% year-over-year net sales growth

Results indicate that 39% of faculty currently use a course website and 83% consider web-based instructional technology to be important

Leading Technology Solutions

The higher education marketplace favors intangibles such as ideas, learning, and relationships. It is therefore well-suited to transformation by today's digital and communication technologies. In a continued effort to improve understanding of the role of technology in teaching and learning, in December 2001, the Division completed its third national study on student success and technology. Results indicate that 39% of faculty currently use a course website and 83% consider web-based instructional technology to be important. The study also highlights the need for "ready to go" technology, complete with authoritative and appropriate content. The study also reveals that the majority of instructors believe 20-50% of their course will be delivered online within the next three years. The Division also anticipates an increased level of involvement by administration in the deployment of instructional technologies on campus as this area is increasingly being seen as a central strategic issue.

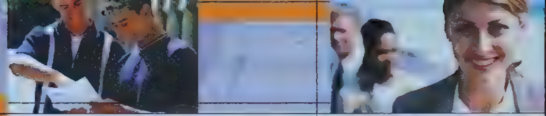
The Division's response to these trends is the continued expansion and refinement of its technology-based products and services. Online Learning Centres and Web CT or Blackboard cartridges accompany all titles. The Higher Education Division has over four hundred e-books available via Primis Online or Metatext. PageOut, the Division's own course-management system, is targeted at the instructor who desires "ready to go" technology and content; there are now over 10,000 registrants. The Division also remains committed to innovation in the field of learning technologies and has forged an alliance with Bell Canada, Cap Gemini/Ernst & Young Consulting, Compaq, Blackboard, NAIT, and Seneca College to investigate the educational possibilities of providing content over a wireless network to a PDA.

The technology study also highlights the fact that instructors and administrators want assistance in developing awareness, knowledge, and requisite skills to support the effective use of instructional technologies. Increasingly, the Division's role will be to provide solutions to all three of these challenges. On campus, faculty is helped in the development of instructional strategies that integrate both traditional and technology-based solutions to enhance teaching and facilitate learning. This is accomplished through professional development training seminars for faculty and through the everyday one-on-one support provided by divisional sales staff who, in the future, will be known as I-Learning Sales Specialists, in recognition of their evolving role.

Canadian Publishing Program

The Canadian publishing program published 57 titles this year including twelve first editions. The program exceeded its goal and generated 22.9% growth over the prior year. Outstanding performance by marquis titles like Larson: *Fundamentals of Accounting*, 10/e, Ross: *Fundamentals of Corporate Finance*, 4/e and Nicholson: *Linear Algebra*, 1/e led the program.

As well, the Company's commitment to Canadian publishing continues to grow. Total signings of new titles for the Higher Education Division substantially exceeded expectations.



Once again, several members of the editorial team were recognized by the International Publishing Group of The McGraw-Hill Companies, Inc. and received a number of awards including Best Local Product, Best Revision and International Editor of the Year.

Business Uncertainties

The continued threat of recession, while resulting in increased enrolments, may also heighten price sensitivity and lead to increased piracy. In addition, instructor-generated and non-traditional source based course packs could serve to dampen the positive effects of the double-cohort. Double-cohort refers to the fact that the number of graduates applying to post-secondary institutions will double in 2003 due to the phasing out of Grade 13 in Ontario.

Outlook

While the economy faces increasing recessionary pressures, the Higher Education Division expects strong growth again next year. The higher education industry generally runs counter-cyclical to the economy and, as a rule, enrolments increase during difficult economic times. In addition, an increase in enrolments is anticipated due to the Ontario double-cohort.

The Division anticipates increasing interest in how wireless networks can leverage both content and instructional technology to enhance the educational experience.

Key Products and Services for 2001 were as follows:

1. Nicholson, *Elementary Linear Algebra*, 1/e
2. Larson/Jensen/Carroll, *Fundamental Accounting Principles*, 10/C/e
3. McShane, *Canadian Organizational Behaviour*, 4/e
4. Myers/Spencer, *Social Psychology*, 1/C/e
5. PageOut
6. PowerWeb

School Division

Sales Performance

The School Division enjoyed another successful year in 2001 in part as a result of the $15 million investment in textbooks by the Ontario Ministry of Education and Training to support the implementation of new Grade 11 curricula in Science, Mathematics and English. The Division captured a 29% share of these targeted funds — a significant achievement in a market of six other competitors. The mathematics list was a significant success with a 46% share while the science list captured a 31% share in a market of four competitors. The social studies list also performed well, with both *Echoes from the Past: World History to the 16th Century* and *Images of Society: Introduction to Anthropology, Sociology and Psychology* exceeding first year sales expectations. The expansion of the Grades 7 and 8 [illegible] into the Alberta market with *SCIENCEFOCUS* was also highly successful, capturing a 70% market share.

▶ Resource development will integrate print and electronic formats to support both teachers and learners

Leading Educational Solutions

The School Division led the market by developing student e-books for six of its ten 2001 publications and by producing teacher resource material in both electronic and print formats. In addition, there is ongoing development and classroom testing for the publication of a fully integrated print and electronic student resource for a general science course in Alberta. Market research continues to focus on understanding the role and value of technology in K–12 classrooms and market receptivity to investing in a variety of applications. The Division's alliance with Chenelière/McGraw-Hill resulted in the concurrent publication in both English and French of four textbooks for the Ontario Grade 11 curriculum and two for the Alberta science market. The Company's ability to present products in both official languages will continue to be a distinctive long-term competitive advantage and the School Division will pursue this strategy in 2002 with the publication of ten additional titles.

▶ The School Division expects to maintain its revenue growth with the publication of fifteen Canadian titles to support curriculum reform in our two largest markets: Ontario and Alberta

Business Uncertainties

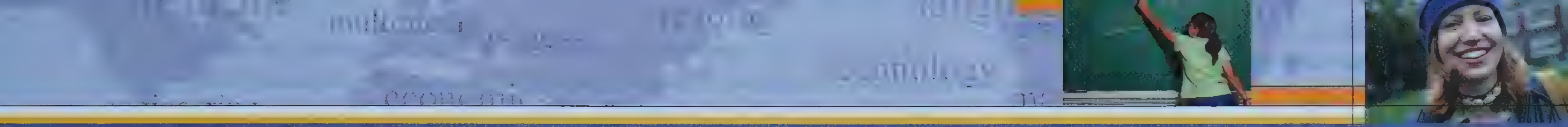
While funding for learning resources is expected to remain stable for 2002, the current economic situation could give rise to a change in educational funding. At greatest risk is British Columbia, where significant budget reductions are underway. In Ontario, the Division's largest market, the $15 million investment in textbooks to support implementation of the new Grade 12 curricula in the 2002–2003 school year continues to remain secure. While this investment in learning resources appears to be sufficient to support new mathematics, science and English language arts courses, it is inadequate to fully fund the implementation of new resources to support courses in other subject areas. Plans for curriculum renewal for 2003 and beyond is currently in flux, with most provinces expected to establish key milestone dates within the next six months.

Canadian Publishing Program

In 2002, the School Division will leverage its success in the following markets: senior high school science with the publication of: *MHR Biology 12*, *MHR Chemistry 12* and *MHR Physics 12*; mathematics with the publication of: *MHR Mathematics: Preparing for College and Apprenticeship 12*, *MHR Mathematics of Data Management*, and *MHR Calculus and Advanced Functions;* senior high school social studies and history with the publication of: *Philosophy: Questions and Theories*, *Individuals and Families in a Diverse Society*, *Legacy: The West and the World* and *Defining Canada: History, Identity and Culture*; Alberta junior high school science through the publication of *SCIENCEFOCUS 9*. In addition, the School Division will enter the Alberta high school science market with the first fully-integrated electronic/print resource: *science.connect 1*. Market research and editorial work in 2002 will focus on developing resources for a comprehensive grades K–9 social studies curriculum revision in Alberta and Atlantic Canada and for Grade 10 science in Alberta. Resource development will integrate print and electronic formats to support both teachers and learners.

Outlook

Enrolment in the school market is expected to remain stable in 2002. The most uncertainty resides in the financial support of high school elective



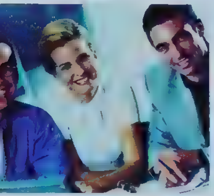
courses affected by curriculum reform in Ontario. The broad scope of the electives publishing program at Glencoe/McGraw-Hill combined with the acquisition by The McGraw-Hill Companies of the Tribune line will place McGraw-Hill Ryerson in a strong position to support a wide range of courses. With the addition of the Wright Group product line, the School Division is now able to offer a wide range of alternative solutions to support the grades K–3 literacy market. Additionally, the School Division expects to maintain its revenue growth with the publication of fifteen Canadian titles to support curriculum reform in our two largest markets: Ontario and Alberta.

The School Division's Key Product Offerings for 2001 were as follows:

1. Bullard/Makar/Martin/Martin/Strachan/Bullard/Krupa/Krupa/Kiddell/Clancy/Galbraith, *SCIENCEFOCUS 7*
2. Knill/Canton/Ferneyhough/Ferneyhough/Hamilton/Lim/Rodger/Webb, *Mathematics 11*
3. Mustoe/Jansen/Doram/Ivanco/Clancy/Ghazariansteja/Bedry/Hayhoe, *Chemistry 11*
4. Brosseau/Erdman/Fawcett/Irvine/McCudden/Mehler/Miller/Perivolaris/Saarimaki, *Mathematics: Making Financial Decisions 11*
5. Galbraith/Blake/Bullard/Chetty/Grace/Matovinovic/Price/Mason/Little/Little/Gibbons/Schramek, *Biology 11*
6. Edwards/Siler/Martin/Liland/Haley/Chetty/Grace/Brown/Clancy/Jolliffe, *SCIENCEFOCUS 8*

Trade, Professional and Medical

Sales Performance



The Trade [illegible]onal and Medical Division faced a challenging Canadian retail marketplace in 2001. The North American economic slowdown [illegible]ty took its toll. As well, the acquisition of Chapters by Trilogy, approved in July 2001, created one dominant Canadian book retail[illegible] -- [illegible] Books & Music Inc. ("Indigo"). In addition, Indigo closed Pegasus, its wholesale/distribution majority-owned subsidiar[illegible] the Canadian Trade market was flat with increases in the children's, fiction, and gift categories balancing softness in business [illegible]. This Division, with a non-fiction list weighted toward business and computing, saw a double-digit drop in revenue.

Desp[illegible] in revenue, certain categories and channels had an exceptional year. The Division's general interest list, which more than [illegible] The McGraw-Hill Companies' acquisition of a strong general interest list, NTC Contemporary, as part of their Tribune acquisi[illegible] a record year. Sales of parenting/childcare titles quadrupled, and sports titles tripled. The Canadian list was another [illegible] and contributed to increased sales in the sports category with *On Course with Mike Weir* leading the pack.

Whi[illegible] buoyant, the end consumer was not purchasing the books. An unprecedented level of returns was the major [illegible] books and, to a lesser extent, with the business category. This was an abrupt shift in buyer behaviour from the las[illegible] by [illegible]offs and cutbacks in the core industries and a lack of major hardware and software releases.

Turnin[illegible] the release of The McGraw-Hill Companies' flagship product *Harrison's Principles of Internal Medi[illegible]* [illegible]-Hill Ryerson's Medical group exceed its profitability target for 2001. The success of the direct marketing sales channel, which achieved 125% of target, was a related factor.

T[illegible] continued to diversify its customer base successfully. In addition to the profitable gro[illegible] marketing programs (web and print), library channel sales increased by 56%. Special Sa[illegible]-traditional book retailers -- also delivered impressive results.

▶ Our general interest list, which more than doubled with The McGraw-Hill Companies' acquiring NTC Contemporary enjoyed a record year

▶ *Harrison's Principles of Internal Medicine*, 15th edition, helped our Medical group exceed their profitability target for 2001

Business Uncertainties

Possible closures of some retail stores as a result of the Indigo/Chapters merger will continue to impact sales and returns.

The announced launch of Amazon.ca, the Canadian version of Amazon.com, last May was postponed and is now expected in the summer of 2002.

The timing of the economic recovery, potentially in late 2002, is the key to renewed strength in the core categories of business and computing.

Canadian Publishing Program

In 2001, the Division focused on the personal finance, small business, training, and general interest categories. It produced bestsellers including *On Course with Mike Weir* by Mike Weir, *The Canadian Guide to Will & Estate Planning*, 2nd edition, by Doug Gray and John Budd, and *Make Sure It's Deductible*, 2nd edition, by Evelyn Jacks.

The success of the Trade, Professional and Medical Division's Canadian program in 2001 came from a strong frontlist supported by a solid backlist. For example, *No Guts No Glory*, by David Olive (published in 2000) was short-listed for the National Business Book award. In fact, frontlist/backlist sales were split almost 50/50 with distribution through all our key channels.

Building on The McGraw-Hill Companies' strengths in the global marketplace, the Division focused on securing translation and e-rights licensing, and export deals for its list, and exceeded its aggressive targets for domestic and foreign revenues.

Outlook

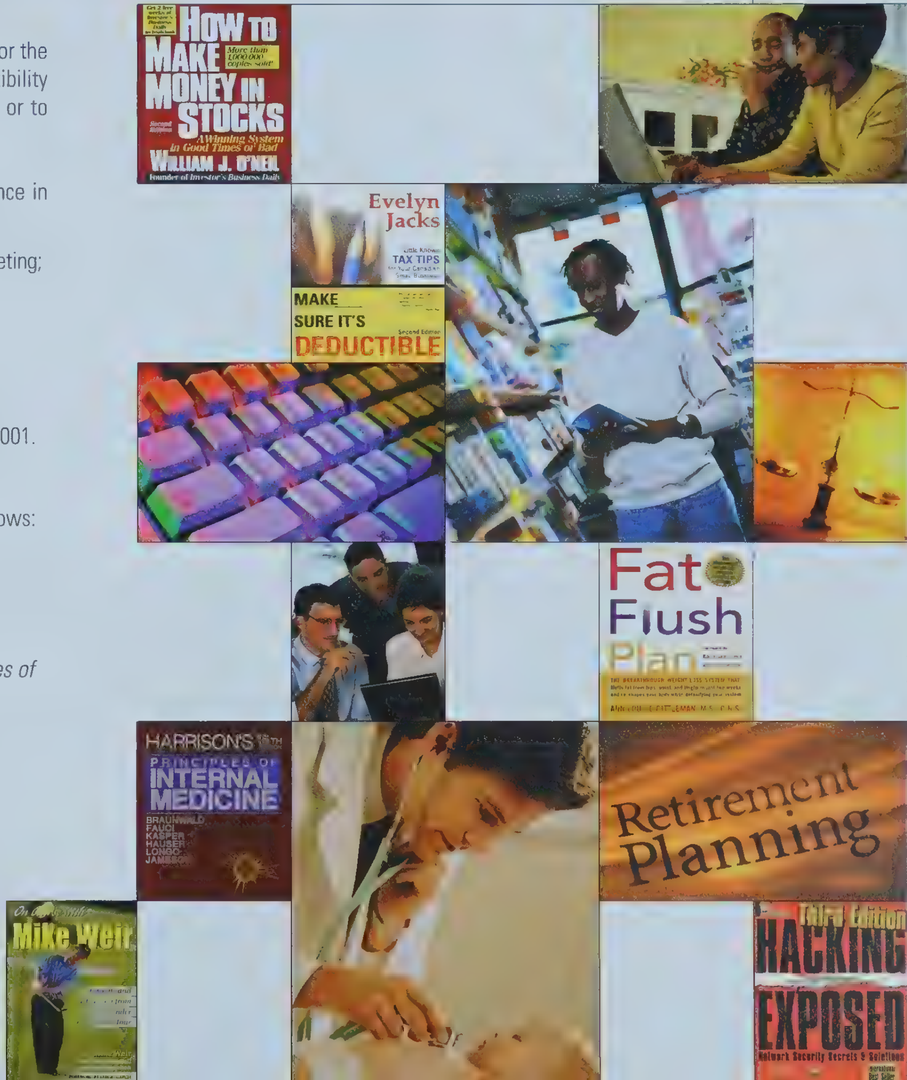
Fiscal 2002 has the potential to be another demanding year, particularly for the trade or retail business. Underlying all our 2002 strategic initiatives is flexibility — essential if the Company is to take advantage of a market recovery, or to reduce the severity of a market slump.

The Trade, Professional and Medical Division plans to improve its presence in the market and improve profitability through the following initiatives:

- Investing in strategic general interest, computer and business book marketing;
- Leveraging current success with the Medical list through adoptions at Medical and Allied Health Schools;
- Continuing to diversify the customer base;
- Identifying and executing cost containment opportunities;
- Realizing efficiency gain as a result of divisional restructuring in late 2001.

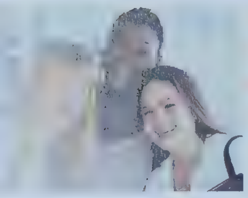
Key Products in the Trade, Professional and Medical Division were as follows:

1. Weir/Campbell/Morrison, *On Course with Mike Weir*
2. O'Neil, *How To Make Money In Stocks*, 2/e
3. Jacks, *Make Sure It's Deductible*, 2/e
4. Braunwald/Fauci/Kasper/Hauser/Longo/Jameson, *Harrison's Principles of Internal Medicine*, 15/e
5. McClure/Scrambray/Kurtz, *Hacking Exposed*, 3/e
6. Gittleman, *The Fat Flush Plan*



Chenelière/McGraw-Hill ("DLC")

Sales Performance



Chenelière/McGraw-Hill enjoyed an excellent year in 2001 with French translations of successful titles from the McGraw-Hill Ryerson School Division: *Biology 11*, *Chemistry 11*, and *Mathematics 11*. These titles support the implementation of new Grade 11 curricula by the Ontario Ministry of Education. An excellent resource in social studies was also translated: *Echoes from the Past: World History to the 16th Century*. The French translation of *SCIENCEFOCUS 7* and *8* for the implementation of Alberta's new science curriculum also enjoyed great success.

DLC's Higher Education division had outstanding results with the translation of O'Leary's *Computing Essentials 2000-2001* (4th French Edition), Stevenson's *Production/Operation Management*, the Canadian Edition of Ross's *Fundamentals of Corporate Finance*, and [illegible] *of World Politics* 4th edition. The frontlist was particularly successful with total revenues 12% over budget. For the first time this year, sales of McGraw-Hill English titles to French institutions exceeded $2 million. This milestone was reached through the addition of the Mayfield list along with an experienced sales team.

Chenelière/McGraw-Hill enjoyed an excellent year in 2001 with French translations of successful titles from the [illegible]Graw-Hill Ryerson School and Higher Education Divisions

Following an alliance established in 1995 between Les Editions de la Chenelière ("DLC"), McGraw-Hill Ryerson Limited and The McGraw-Hill Companies, Inc., DLC, a non-related, privately-held, independent company based in Montreal, publishes French-language products under the joint Chenelière/McGraw-Hill imprint.

Leading Technology Solutions

Chenelière/McGraw-Hill is a leader among Québec publishers. Its Higher Education Division launched many new products with technology components. *Vendeur* and *Clic-moi* are tutorials aimed at students in sales and computing. *Marketing*, 4th edition, by Pettigrew and Turgeon contains a complete technological package including a computer simulation, over two hundred PowerPoint slides, and an electronic newsletter sent to teachers three times each semester. Students can find supplementary information, links to other websites, exercises and real life examples with which they can work. Its Professional Division has had a website component for all new books for the past two years.

The French translation of the popular *MATHPOWER 10-11-12* Western Edition was completed in 2001

Business Uncertainties

Chenelière/McGraw-Hill is committed to developing original resources for the implementation of the new curriculum supporting the ongoing education reform in Quebec at the elementary level. These resources, in mathematics, social studies, science and religious education represent huge investments. The Quebec Ministry of Education has not yet committed any targeted funding for the purchase of new educational resources to support the reform. Lack of funding could delay significant sales until 2003.

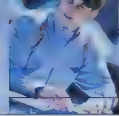
Targeted funding in Ontario for Grade 12 learning resources in French will not be sufficient in 2002 to support the purchase of all resources for all students.

DLC's Higher Education Division is facing curriculum changes at the Cégep level which will be implemented in 2002 in administration, social studies, nursing and computer programs.

Canadian Publishing Program

In 2002, DLC's School Division will translate nine titles from McGraw-Hill Ryerson and ten from Glencoe/McGraw-Hill following a successful selection of titles from a special Ontario Ministry of Education call for French resources for Grades 11 and 12. This initiative will make it possible for the first time to publish titles for elective and vocational courses for a small market.

The French translation of the popular *MATHPOWER 10-11-12* Western Edition was completed in 2001. With the publication of the French version of *SCIENCEFOCUS 9* in 2002, the Alberta junior high school science program will be completed.



Higher Education will pursue its translation program for McGraw-Hill titles with the 2nd edition of *Chimie fondamentale* by Raymond Chang and the 7th edition of Larson's *Initiation à la comptabilité générale*. Two new products will be translated: *Introduction to e-commerce* (Rayport/Jaworski) and *Financial Accounting*, 3rd edition (Libby/Libby/Short).

Outlook

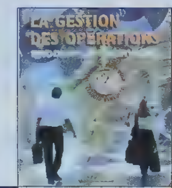
Chenelière/McGraw-Hill will continue to build its School publishing program in part through leveraging McGraw-Hill Ryerson's excellent list. As well, the Glencoe/McGraw-Hill list will be helpful for publishing resources in French for elective and vocational courses. The Wright Group product line will assist the Company in entering the K–3 literacy market with French adaptations.

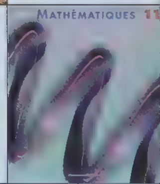
The Higher Education Division is looking at the McGraw-Hill Ryerson Canadian adaptations program to develop a list of new titles that will hopefully be as successful as Ross was in 2001. New products will also be developed for the new nursing curriculum in conjunction with local authors. The new computer science curriculum, currently in development, will also be looked at closely.

Chenelière/McGraw-Hill has had consistent growth in exports over the last five years. Increased exports to Europe and Africa are anticipated as the relationship with distributors matures. DLC enjoyed 8% growth in 2001 and double-digit growth is anticipated for 2002.

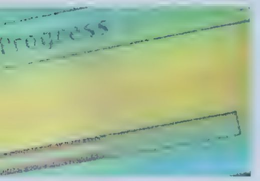
Key Product Offerings for 2001 were as follows:

1. Galbraith/Blake/Bullard/Chetty/Grace/Matovinovic/Price/Mason/Little/Little/Gibbons/Schramek, *Biology 11*
2. Mustoe/Jansen/Doram/Ivanco/Clancy/Ghazariansteja/Bedry/Hayhoe, *Chemistry 11*
3. Knill/Canton/Ferneyhough/Ferneyhough/Hamilton/Lim/Rodger/Webb, *Mathematics 11*
4. Ross/Westerfield/Jordan/Roberts, *Gestion financière*
5. Stevenson/Benedetti, *La gestion des opérations*
6. Allen, *Atlas géopolitique*





Value-added Support



▶ EDP Department provides project management, financial analysis, technical production and manufacturing services to the Editorial Divisions

▶ ...the ability to share information across business units will enhance our ability to service and support customers around the globe

▶ ...enhanced service offerings to customers including customer self-direct alternatives and expanded methods of communication

Editorial, Design, and Production Department

McGraw-Hill Ryerson's Editorial, Design, and Production (EDP) Department provides project management, financial analysis, technical production and manufacturing services to the Editorial Divisions for a wide variety of product offerings. In 2001, EDP oversaw the production of 221 new titles and 183 reprints. The Department is organized along divisional lines, providing support for the Higher Education, School, and Trade Divisions. Budgets are set based on preliminary planning sessions with Editorial and Marketing to determine end-product specifications and schedules. Once the development process is completed, the project is handed over to Production. Strict adherence to established budgets and timelines is stressed throughout the production process.

Business alliances with key vendors allow for competitive pricing and ensure the highest quality of materials for McGraw-Hill Ryerson's products. These alliances help to guarantee the timely delivery of products to the Company's warehouse for distribution to customers. In addition, a close working relationship with its majority shareholder provides McGraw-Hill Ryerson with the opportunity to leverage the buying powers and established best practices of a multi-billion dollar corporation.

Information Systems and Technology (IS&T)

As McGraw-Hill Ryerson was selected as the pilot site for the implementation of Oracle 11i, from a technology perspective, 2001 was a year of planning and preparation for this significant event. Major improvements to the Wide Area Network, Local Area Networks and desktop computing environments prepared the Company's infrastructure for a smooth transition. Plans are currently underway to support elements of testing, validations and conversions to ensure the continuity and integrity of data for a successful implementation. Upon completion of the global implementation, the ability to share information across business units will enhance our ability to service and support customers around the globe, leading to improved response time and higher service levels.

Additionally in 2001, new websites were developed at the Corporate and Divisional levels to provide improved focus on the informational needs of customers, as well as to provide a stronger branding image. Navigation through all sites was simplified to support easy access to information.

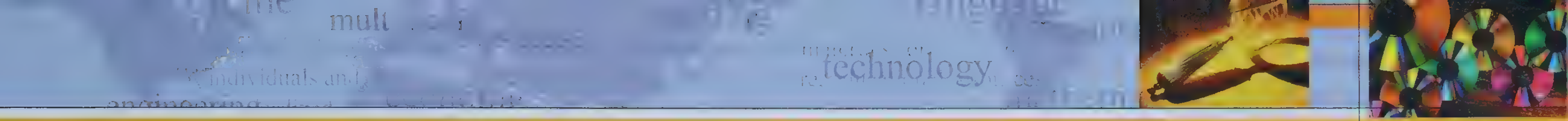
Customer Satisfaction Division

The Customer Satisfaction Division provides customer service and logistical support to ensure a high level of service to our customers. With a view to the future, the Division has keenly participated in the development of global policies and practices and the implementation of new technologies. These efforts support the global Enterprise Resource Planning (ERP) initiative scheduled for initial rollout in Canada in 2002. In Customer Service, this will ultimately lead to enhanced service offerings to customers including customer self-direct alternatives and expanded methods of communication.

The Global Supply Chain Team will leverage integrated, leading edge forecasting and procurement tools to secure product while enhanced visibility and expanded distribution alternatives will reduce product cycle time to customers. This will be done through the introduction of a Oracle 11i Enterprise Resource Plan.

In anticipation of the ERP, the Warehouse is presently engaged in a physical retrofit and the implementation of a Warehouse Management System (WMS). The new technologies being implemented will yield a fully automated warehouse operation providing advanced benefits such as bar code labeling for content and carrier tracking capability at the individual carton level. This WMS was developed several years ago by The McGraw-Hill Companies, Inc. and is currently in operation in five major U.S. distribution centers.

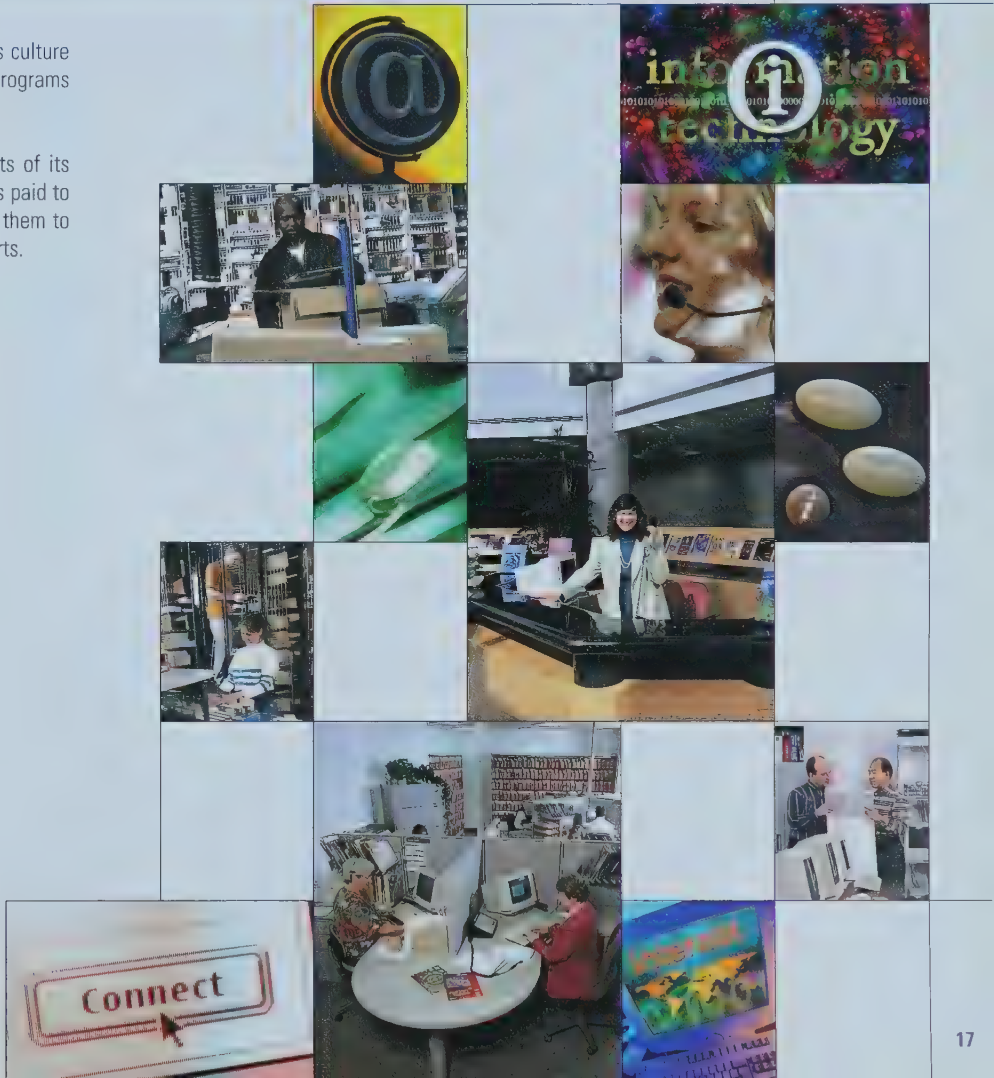
Once completed, these initiatives will ensure that internal standards of performance continue to yield a service level that meets or exceeds customers' expectations.



Human Resources

During the year, McGraw-Hill Ryerson reinforced its commitment to its culture and values through performance management/compensation/reward programs and employee development and assistance programs.

The Company has made significant gains in improving various aspects of its compensation programs. In February 1998, the first bonus payment was paid to all employees who were not on an individual incentive plan, allowing them to share in the Company's improved performance resulting from their efforts.



Management's Discussion and Analysis

Financial Results (In Thousands of Dollars)

	2001	2000	1999	1998	1997
Total sales less returns ("sales")	**86,599**	74,985	75,992	66,732	60,920
% increase/(decrease)	**15.5%**	(-1.3%)	13.9%	9.5%	41.7%
Higher Education sales	**52.3%**	50.2%	46.7%	50.3%	53.4%
School sales	**34.0%**	32.7%	28.4%	28.0%	26.1%
Trade, Professional and Medical sales	**13.7%**	17.1%	24.9%	21.7%	20.5%
Imported product sales	**52.1%**	54.6%	56.4%	56.3%	58.5%
Canadian & adaptations sales	**45.8%**	42.7%	36.9%	37.9%	36.7%
Agency sales	**2.1%**	2.7%	6.7%	5.7%	4.8%
Total expenses	**78,075**	69,309	66,924	58,999	54,072
% of net sales	**90.2%**	92.4%	88.1%	88.4%	88.8%
Net income	**6,631**	4,639	5,849	5,207	4,448
% of net sales	**7.7%**	6.2%	7.7%	7.8%	7.3%
Total assets	**86,054**	73,821	74,689	62,348	55,005
Return on assets %	**7.7%**	6.3%	7.8%	8.4%	8.1%

Revenue

McGraw-Hill Ryerson had a double-digit sales growth of 15.5% in 2001 with sales of $86.6 million, compared to $75.0 million in 2000.

Higher Education had a record sales growth of 20.3% over 2000 with sales of $45.3 million in 2001, up from $37.6 million. This Division increased its market share through the acquisition of the Mayfield product line by The McGraw-Hill Companies, Inc. and increased enrolments for the first time in several years. The School Division also enjoyed record growth with sales of $29.4 million or 20.1% higher than $24.5 million in 2000. This growth can be largely attributed to the success of the math and science titles published for Ontario and Alberta. Trade, Professional and Medical sales declined 7.5% from 2000 sales of $12.8 million to $11.9 million. This Division continued to experience significant returns by the Chapters/Indigo group of companies.

Canadian publications and adaptations saw an increase from 42.7% to 45.8% of sales owing to the increased number of Canadian titles published by the Higher Education Division and the success of the School Division's products. Product imported from The McGraw-Hill Companies, Inc., although increasing in sales dollars, declined as part of the sales mix for the second year in a row from 54.6% to 52.1% of total sales. Agency sales continued to decline from 2.7% to 2.1%, owing to the decrease in the trade market.

Expenses

In 2001 total expenses increased 12.6% to $78.1 million from $69.3 million in the prior year. Expenses as a percentage of sales decreased to 90.2% in 2001 from 92.4% in 2000. Overall, this increase is consistent with variable expenses increasing with sales, while holding fixed expenses close to the prior year's level.

Operating expenses, comprised of cost of product and royalties, increased to $43.5 million from $37.5 million. This 15.9% increase is consistent with the 15.5% increase in overall sales; the slight additional increase is the net effect of foreign exchange offset by sales mix. Editorial, selling, general and administrative expenses increased 6.5% to $28.6 million from $26.8 million in 2000. These expenses are 33.0% of sales in 2001 compared to 35.8% in 2000 owing to the sales growth.

Prepublication amortization increased 44.4% to $4.3 million from $3.0 million in the prior year. This increase is a result of the continuing investment in the Canadian publishing program of traditional as well as digital products. Amortization expense has remained consistent with the prior year at $1.4 million.

Despite the decline of the Canadian dollar throughout the year, the foreign exchange loss of $0.3 million is lower than the $0.4 million in 2000 because of diligent cash and exchange management. Higher cash levels led to a lower interest expense in 2001 of $0.02 million, down from $0.1 million in the prior year.

The effective tax rate increased to 37.7% from 35.2% in 2000 despite the drop in future tax rates by the Federal and Provincial governments. This increase is a result of the change in mix between the assets and liabilities on which the future taxes are based.

Cash significantly increased by 162% to $21.3 million from $8.1 million in 2000. The increase is attributable to strong management of working capital and closely managed capital spending.

Inventory levels declined by 5.0% in the year, with improvement in the management of excess product. The number of months' supply on hand has decreased over last year.

Liquidity and Financial Resources (In Thousands of Dollars)

	2001	2000	1999	1998	1997
Cash	**21,307**	8,133	16,253	8,381	3,953
Cash flow from operations	**23,353**	413	16,060	7,501	5,963
Prepublication investment	**7,530**	6,268	6,222	1,733	2,099
Capital asset additions	**1,571**	1,185	968	541	1,046
Total assets	**86,054**	73,821	74,689	62,348	55,005
Working capital	**22,744**	20,748	21,478	16,725	13,534
Accounts receivable	**15,904**	15,866	15,788	13,343	8,497
Inventory	**9,365**	9,863	11,006	10,544	12,570

Accounts receivable was unchanged from the prior year. The Company's collection performance is closely monitored in accordance with credit terms and industry standards.

Prepublication costs have increased 20.1% to $7.5 million in 2001 from $6.3 million in 2000 with the increase in titles published by Higher Education and the continued increase in grade levels published in School.

Capital asset purchases of $1.6 million relate to building improvements and technology equipment purchases. These purchases are in line with the continuing goal of leveraging new technologies and maximizing the efficiency and effectiveness of office space.

The balance sheet is consistent with prior years, and the liquidity of the Company has improved from 2000.

Risks and Uncertainties

Educational Funding Constraints

While educational funding has been stable in most provinces since 1998, it is uncertain whether the Province of Ontario will maintain the levels of funding of recent years. To overcome the impact of public funding reductions, the Company has made great strides in researching, developing and marketing innovative learning resources. These resources meet specific learning needs of students while reducing the number of required teacher-contact hours.

Format and Delivery of Future Learning Resources

The advent of new media is affecting the publishing industry in several ways: sales of non-print materials have begun to increase as a percentage of total sales; competition is appearing from non-traditional publishers, such as high-technology firms. There is an increase in electronic piracy over the Internet; and, most importantly, the format of future learning resources remains uncertain.

In response to these evolving technological changes, all of the Company's divisions are developing innovative non-print products as well as working on ways to prevent piracy. Further investment in this market will depend on demand, cost, revenue management and the acceptance of new technology by our customers.

Competition From Foreign-Based Virtual Bookstores

The advent of virtual bookstores in the United States has created an avenue for Canadian consumers and students to purchase published product directly from foreign retailers, thus eliminating the Canadian marketers and distributors of the product. In particular, students will be capable of accessing a very large source of second-hand product not previously available in Canada. However, this risk is mitigated by the fall of the Canadian dollar against the US dollar. Canadian virtual bookstores, on the other hand, have proven to be effective retailers of McGraw-Hill Ryerson product and the Company is aggressively pursuing this market segment.

Dependency on Superstores

With the merger of the Chapters and Indigo chains in 2001, the book-retailing climate in Canada has changed noticeably. While these entities account for a relatively small portion of McGraw-Hill Ryerson's total business, their influence in the marketplace, particularly in Trade publishing, is significant.

Foreign Exchange

A significant portion of the Company's purchases is incurred in US dollars. As a result, major exchange-rate fluctuations between the Canadian and the US dollar will either positively or negatively affect net income.

	1999	2000	2001				
	Dec. 31	Dec. 31	Jan. 1	Mar. 31	June 30	Sept. 30	Dec. 31
Exchange Rate	0.693	0.667	0.668	0.634	0.659	0.633	0.628

The Company prudently uses hedging products to reduce the risks associated with currency-rate fluctuations and does not speculate in the market. It uses zero-cost range forward contracts that fix the transaction rate to a specific trading range.

Outlook

During 2001, McGraw-Hill Ryerson continued to capitalize on the business and operational foundations laid over the last several years.

The Company achieved attractive sales growth with a significantly improved local publishing program, an increased array of imported product, and strengthened sales and marketing capabilities.

Every element of the Company has been coordinated in a common strategic focus. Sales, marketing, editorial, production, warehouse and fulfillment, customer satisfaction, finance, technology and human resource functions are all working in concert to create an improved operation.

Fiscal 2002 is projected to be a stable year in which the Company leverages its competitiveness to sustain its recent revenue growth rates. The Company will benefit from the expansion of its product offerings into discipline areas in which it has not previously been present.

The marketplace is still faced with extreme uncertainty. Funding availability, product format, and delivery methods are all subject to various levels of change. To meet these challenges, the Company continues to invest in people and technology. Our goal is to meet the informational needs of our customers by developing innovative educational solutions, providing unparalleled customer satisfaction and fully utilizing the vast array of resources of The McGraw-Hill Companies, Inc.

Management Report

To the Shareholders of McGraw-Hill Ryerson Limited

The financial statements and all the information in this Annual Report were prepared by the management of McGraw-Hill Ryerson Limited, which is responsible for their integrity and objectivity.

These financial statements — prepared in conformity with appropriately chosen Canadian generally accepted accounting principles, and including amounts based on management's best estimates and judgments — present fairly McGraw-Hill Ryerson's financial condition and the results of the Company's operations. Other financial information given in this report is consistent with these financial statements.

McGraw-Hill Ryerson's management maintains a system of internal accounting controls designed to provide reasonable assurance that the financial records accurately reflect the Company's operations and that the Company's assets are protected against loss. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of these controls should not exceed the expected benefits in maintaining these controls. These controls further assure the quality of the financial records in several ways: the careful selection and training of management personnel; maintaining an organizational structure that provides an appropriate division of financial responsibilities; and communicating financial and other relevant policies through the Corporation.

The financial statements in this report have been audited by Ernst & Young LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards. The independent auditors were retained to express an opinion on the financial statements, which appears on page 23.

McGraw-Hill Ryerson's Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, which meets periodically with management and the independent accountants to ensure that each group is carrying out its respective responsibilities. In addition, the independent accountants have full and free access to the Audit Committee and meet with it with no representatives from management present.

John D. Dill
President and
Chief Executive Officer

Poling Y. Chu
Executive Vice President
and Chief Financial Officer

Auditors' Report

To the Shareholders of McGraw-Hill Ryerson Limited

We have audited the balance sheets of McGraw-Hill Ryerson Limited as at December 31, 2001 and 2000, and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 19, 2002

Chartered Accountants

Balance Sheets

(In Thousands of Dollars)

As at December 31	2001	2000	1999
Assets			
Current			
Cash	**$21,307**	$8,133	$16,253
Accounts receivable (net of allowance for book returns of $5,672 (2000 — $4,634; 1999 — $3,374) (note 8)	**15,904**	15,866	15,788
Due from affiliated companies (note 2)	**3,395**	7,197	2,694
Inventories (note 11)	**9,365**	9,863	11,006
Prepaid expenses and other	**394**	736	710
Income taxes receivable	**—**	427	—
Future tax assets (note 5)	**2,350**	1,611	1,245
Total current assets	**52,715**	43,833	47,696
Capital assets, net (note 3)	**19,702**	19,533	19,791
Other assets, net (note 4)	**13,637**	10,455	7,202
	$86,054	$73,821	$74,689
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued charges (note 11)	**8,160**	7,245	7,981
Income taxes payable	**2,085**	—	1,897
Due to affiliated companies (note 2)	**19,726**	15,840	16,340
Total current liabilities	**29,971**	23,085	26,218
Future tax liabilities (note 5)	**1,639**	1,845	2,465
Total liabilities	**$31,610**	$24,930	$28,683
Commitments (note 6)			
Shareholders' Equity			
Share capital			
Authorized 5,000,000 common shares			
Issued and outstanding 1,996,638 common shares	**1,997**	1,997	1,997
Retained earnings	**52,447**	46,894	44,009
Total shareholders' equity	**54,444**	48,891	46,006
	$86,054	$73,821	$74,689

On behalf of the Board

H. Ian Macdonald, O.C., LL.D., Director

John D. Dill, Director

(See accompanying notes to financial statements.)

Statements of Income and Retained Earnings

(In Thousands of Dollars except Per Share Data)

Years ended December 31	**2001**	2000	1999
Revenue			
Sales, less returns	**$86,599**	$74,985	$75,992
Other	**2,126**	1,486	1,399
	88,725	76,471	77,391
Expenses			
Operating (note 2 and 11)	**43,470**	37,512	38,206
Editorial, selling, general, and administrative	**28,566**	26,831	25,486
Amortization (note 7)	**5,750**	4,458	3,513
Foreign exchange loss (gain)	**269**	411	(429)
Interest	**20**	97	148
	78,075	69,309	66,924
Income before income taxes	**10,650**	7,162	10,467
Provision for (recovery of) income taxes (note 5)			
Current	**4,964**	4,183	5,234
Future	**(945)**	(1,660)	(616)
	4,019	2,523	4,618
Net income for the year	**6,631**	4,639	5,849
Retained Earnings			
Retained earnings, beginning of year	**$46,894**	$44,009	$39,158
Application of change in accounting policy (note 5)	**—**	(674)	—
Dividends paid to shareholders ($0.54 per share; 2000 — $0.54 per share; 1999 — $0.50 per share)	**(1,078)**	(1,080)	(998)
Retained earnings, end of year	**$52,447**	$46,894	$44,009
Earnings per share			
Basic — net income for the year	**$3.32**	$2.32	$2.93
Diluted— net income for the year	**$3.32**	$2 32	$2.93

(See accompanying notes to financial statements.)

Statements of Cash Flows

(In Thousands of Dollars)

Years ended December 31	**2001**	2000	1999
Operating Activities			
Net income for the year	**$6,631**	$4,639	$5,849
Add (deduct) non-cash items			
Amortization (note 7)	**5,750**	4,458	3,513
Future income taxes	**(945)**	(1,660)	(616)
	11,436	7,437	8,746
Net change in non-cash working capital balances related to operations (note 10)	**11,917**	(7,024)	7,314
Cash provided by operating activities	**23,353**	413	16,060
Investing Activities			
Prepublication costs	**(7,530)**	(6,268)	(6,222)
Additions to capital assets	**(1,571)**	(1,185)	(968)
Cash used in investing activities	**(9,101)**	(7,453)	(7,190)
Financing Activities			
Dividends paid to shareholders	**(1,078)**	(1,080)	(998)
Cash used in financing activities	**(1,078)**	(1,080)	(998)
Net increase/(decrease) in cash during the year	**13,174**	(8,120)	7,872
Cash, beginning of year	**8,133**	16,253	8,381
Cash, end of year	**$21,307**	$8,133	$16,253

(See accompanying notes to financial statements.)

(Tabular amounts are in Thousands of Dollars)

1. Summary of Significant Accounting Policies

The accompanying financial statements of McGraw-Hill Ryerson Limited (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles. The most significant accounting policies are as follows:

Inventories

Inventories are stated at the lower of cost, on a first-in, first-out basis, and net realizable value.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Building 2-1/2%
Computer equipment 20% to 33-1/3%
Furniture, fixtures and equipment 10% to 20%

Prepublication costs

Prepublication costs include direct labour, preparation, and plate costs, which are amortized from the year of copyright over the lesser of five years and the expected sales life of the related publication.

Contracts, copyrights, trademarks, agency rights, and goodwill

Costs of contracts, copyrights, trademarks, agency rights, and goodwill are being amortized over the lesser of their useful lives or forty years. The Company periodically reviews the carrying value of goodwill to determine if any impairment exists based upon projected, undiscounted net cash flows of the related operations.

Foreign exchange translation

Foreign cash balances and amounts receivable from or payable to foreign affiliates are translated into Canadian dollars at the rates of exchange prevailing at the year end. Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates at the date of the transactions. Any resulting gains or losses are included in net income for the year.

Revenue recognition

The Company recognizes revenue for product sales, net of estimated sales returns, when the products are shipped to customers, which is also when title passes to the customer.

Other revenue is comprised mainly of rental property, interest and other miscellaneous income, and is recognized as earned on a monthly basis.

Pension costs

The Company has a defined contribution pension plan for all employees for which the Company's contributions are expensed as incurred. Total pension expense during the year is $568,000 (2000—$545,000; 1999—$493,000).

Income taxes

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per share

During fiscal 2001, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants (the "CICA") relating to earnings per share. Pursuant to the new recommendations, basic earnings per share are determined by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated in accordance with the treasury stock method and is based on the weighted average number of common shares and diluted common share equivalents outstanding during the year. Prior to the adoption of the new recommendations, diluted earnings per share was calculated using the imputed earnings method. The adoption of the new recommendations has not impacted the basic and diluted earnings per share information presented in the current and prior year's financial statements.

The weighted average number of shares used in the computation of both basic and diluted earnings per share for 2001 is 1,996,638 (2000 – 1,996,638; 1999 – 1,996,638).

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

2. Related Party Transactions

The Company is a subsidiary of The McGraw-Hill Companies, Inc., which owns 70.1% of the outstanding common shares. Under long-standing arrangements, the Company, in the normal course of business, purchases from and sells to the parent company and various international subsidiaries of The McGraw-Hill Companies, Inc., books and educational materials. These purchases and sales are recorded at their exchange amounts. In addition, amounts due from the parent company and common-controlled enterprises are derived from the reimbursement of costs. Terms of payment vary from 10 days with cash discount to 120 days, net from the transaction date, and are non-interest bearing.

Amounts due from parent and affiliated companies consist of the following:

	2001	2000	1999
Parent	**$1,089**	$2,973	$1,612
Common-controlled enterprises	**2,306**	4,224	1,082
	$3,395	$7,197	$2,694

Amounts due to parent and affiliated companies consist of the following:

	2001	2000	1999
Parent	**$19,726**	$15,833	$16,243
Common-controlled enterprises	**—**	7	97
	$19,726	$15,840	$16,340

Related party transactions with parent and affiliated companies consist of the following:

	2001	2000	1999
Purchases			
Parent	**$40,563**	$34,123	$32,877
Common-controlled enterprises	**112**	78	105

3. Capital Assets

Capital assets consist of the following:

	2001			2000			1999		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	**$ 3,598**	**$ —**	**$ 3,598**	$ 3,598	$ —	$ 3,598	$ 3,598	$ —	$ 3,598
Building	**17,756**	**4,580**	**13,176**	17,680	4,145	13,535	17,656	3,712	13,944
Computer equipment	**3,442**	**2,066**	**1,376**	3,308	2,234	1,074	2,440	1,645	795
Furniture, fixtures and equipment	**2,476**	**924**	**1,552**	4,693	3,367	1,326	4,400	2,946	1,454
	$27,272	**$7,570**	**$19,702**	$29,279	$9,746	$19,533	$28,094	$8,303	$19,791

4. Other Assets

Other assets consist of the following:

	2001			2000			1999		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Prepublication costs	**$21,105**	**$7,860**	**$13,245**	$ 19,130	$ 9,080	$ 10,050	$ 14,345	$ 7,561	$ 6,784
Contracts, copyrights, trademarks, agency rights, and goodwill	**540**	**148**	**392**	540	135	405	540	122	418
	$21,645	**$8,008**	**$13,637**	$ 19,670	$ 9,215	$ 10,455	$ 14,885	$ 7,683	$ 7,202

5. Income Taxes

Effective January 1, 2000, the Company changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by The Canadian Institute of Chartered Accountants' Section 3465, *Accounting for Income Taxes*. The cumulative effect of this change as of January 1, 2000, was to decrease opening retained earnings and increase future liabilities by $674,000.

Under the liability method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Significant components of the Company's future tax assets and liabilities as at December 31, 2001 and December 31, 2000 are as follows:

Current future tax assets	**2001**	2000
Allowance for book returns and other items	**$ 2,350**	$ 1,611
Non-current future tax liabilities (assets)		
Capital assets	**$ 2,739**	$ 3,038
Pre-publication costs	**(1,100)**	(1,193)
	$ 1,639	$ 1,845

The reconciliation of provision for income taxes computed at the statutory tax rates is as follows:

	Liability method 2001	Liability method 2000	Deferral method 1999
Tax at combined federal and provincial tax rates	**$4,446**	$3,159	$4,670
Manufacturing and processing profits deduction	**(332)**	(199)	(282)
Reduction in future income taxes resulting from statutory tax rate reduction	**(272)**	(598)	—
Other	**177**	161	230
	$4,019	$2,523	$4,618

6. Lease Commitments

The Company has entered into operating leases, primarily for equipment, for which the estimated future minimum annual payments are as follows:

2002	$ 323
2003	179
2004	11
2005	4
2006	4
	$ 521

7. Amortization

Amortization consists of the following:

	2001	2000	1999
Capital assets	**$1,402**	$1,443	$1,312
Prepublication costs	**4,335**	3,002	2,187
Contracts, copyrights, trademarks, agency rights, and goodwill	**13**	13	14
	$5,750	$4,458	$3,513

8. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, amounts due from/to affiliated companies, accounts payable and accrued charges and income taxes receivable/payable At December 31, 2001 and 2000, the fair value of the Company's financial instruments approximates their carrying value due to the short-term maturity of these instruments. The Company's five largest customers make up approximately 33% [2000 — 54%; 1999 — 49%] of the accounts receivable balance and approximately 19% [2000 —15%; 1999 — 20%] of net sales.

9. Segmented Disclosure

The Company is structured on a market-focus basis and operates in three primary market areas: post-secondary education, including universities and community colleges ("Higher Education"); secondary and elementary schools and proprietary colleges ("School"); and trade, professional and medical, including retailers, distributors, libraries, non-traditional booksellers, direct marketing and the medical sector ("Trade, Professional and Medical"). The accounting policies of these operating segments are the same as those described in the summary of significant accounting policies.

	2001					2000				
	Higher Education	**School**	**Trade Professional and Medical**	**Warehouse Fulfillment and Support**	**Total**	Higher Education	School	Trade Professional and Medical	Warehouse Fulfillment and Support	Total
Sales, less returns	**$45,297**	**$29,422**	**$11,880**	**$ —**	**$86,599**	$37,649	$24,489	$12,847	$ —	$74,985
Amortization	**2,482**	**2,173**	**36**	**1,059**	**5,750**	1,761	1,482	36	1,179	4,458
Provision for income taxes	**—**	**—**	**—**	**4,019**	**4,019**	—	—	—	2,523	2,523
Divisional income (loss) before income taxes	**9,652**	**8,435**	**953**	**(8,390)**	**10,650**	7,341	7,259	666	(8,104)	7,162
Total expenditures for additions to capital assets	**91**	**251**	**34**	**1,195**	**1,571**	250	81	42	812	1,185
Segment assets	**16,089**	**15,512**	**9,558**	**17,419**	**58,578**	16,371	12,483	8,814	18,023	55,691

Reconciliations

	2001	2000	1999
Segment assets	**$58,578**	$55,691	$53,771
Unallocated assets			
Cash and cash equivalents	**21,307**	8,133	16,253
Due from affiliated companies	**3,395**	7,197	2,694
Non-divisional prepaid expenses and other	**32**	357	308
Future tax assets	**2,350**	1,611	1,245
Income taxes receivable	**—**	427	—
Contracts, copyrights, trademarks, agency rights, and goodwill	**392**	405	418
	$86,054	$73,821	$74,689

10. Statements of Cash Flows

The net change in non-cash working capital balances related to operations consists of the following:

	2001	2000	1999
Accounts receivable	**$ (38)**	$ (78)	$(2,445)
Inventories	**498**	1,143	(462)
Prepaid expenses and other	**342**	(26)	233
Income taxes receivable/(payable)	**2,512**	(2,324)	1,459
Due from affiliated companies	**3,802**	(4,503)	1,867
Accounts payable and accrued charges	**915**	(736)	1,976
Due to affiliated companies	**3,886**	(500)	4,686
	$11,917	$(7,024)	$ 7,314

Supplemental cash flow information

	2001	2000	1999
Interest paid	**$ 19**	$ 97	$ 136
Income taxes paid	**$ 3,884**	$ 5,137	$ 4,322

11. Operating Expenses

During the year, management evaluated the operations of the Company. In an effort to realign the Company's investments to its long-term strategic goal, activities not generating an acceptable rate of return are being phased out. The costs relating to this realignment are comprised of approximately $237,000 relating to employee termination and severance, $585,000 to a write-down of inventory and $79,000 related to other costs. No further costs related to the realignment are anticipated. The total cost of $901,000 relating to realignment is included in the operating expenses.

As at December 31, 2001, approximately $316,000 of these costs remain unpaid and have been included in accounts payable and accrued charges.

12. Comparative Financial Statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2001 financial statements.

Selected Financial Data

The following selected financial data of the Company, as it relates to the nine years ended December 31, 2001, is derived from the audited financial statements of the Company.

Comparative Statement of Income (000s)

Years ended December 31	**2001**	2000	1999	1998	1997	1996	1995	1994	1993
Revenue	**$88,725**	$76,471	$77,391	$68,356	$61,883	$44,163	$38,544	$38,281	$37,881
Expenses	**78,075**	69,309	66,924	58,999	54,072	41,154	36,450	38,237	36,594
Income Taxes	**4,019**	2,523	4,618	4,150	3,363	1,392	472	18	553
Income from continuing operations	**$ 6,631**	$ 4,639	$ 5,849	$ 5,207	$ 4,448	$ 1,617	$ 1,622	$ 26	$ 734
Income from continuing operations per share	**$ 3.32**	$ 2.32	$ 2.93	$ 2.61	$ 2.23	$ 0.81	$ 0.81	$ 0.02	$ 0.37
Loss from discontinued operations net of tax	**—**	—	—	—	—	—	—	$ (7,345)	$ (1,145)
Net income (loss)	**$ 6,631**	$ 4,639	$ 5,849	$ 5,207	$ 4,448	$ 1,617	$ 1,622	$ (7,319)	$ (411)
Net income (loss) per share	**$ 3.32**	$ 2.32	$ 2.93	$ 2.61	$ 2.23	$ 0.81	$ 0.81	$ (3.67)	$ (0.21)
Dividends paid per share	**$ 0.54**	$ 0.54	$ 0.50	$ 0.40	$ 0.20	$ 0.20	$ 0.20	$ 0.15	$ 0.60
Balance Sheet Data									
Total Assets	**$86,054**	$73,821	$74,689	$62,348	$55,005	$55,103	$48,176	$50,843	$58,341

The following table illustrates comparative results for the four quarters of 2001, 2000 and 1999.

Quarterly Income Statement ($000)

	Quarter Ended March 31			Quarter Ended June 30			Quarter Ended Sept. 30			Quarter Ended Dec. 31			Full Year		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Total Revenue	**9,064**	9,450	9,289	**15,723**	11,687	14,005	**42,503**	36,112	32,114	**21,435**	19,222	21,983	**88,725**	76,471	77,391
Net Income (Loss) for the period	**(1,178)**	(590)	(223)	**562**	(295)	243	**5,961**	5,304	4,511	**1,287**	220	1,317	**6,631**	4,639	5,849
Net Income (Loss) per share	**(0.59)**	(0.30)	(0.11)	**0.28**	(0.15)	0.12	**2.99**	2.66	2.26	**0.64**	0.11	0.66	**3.32**	2.32	2.93

President's Club Awards

The Gold Award for Outstanding Contribution

Selection Criteria:

- Selflessly acts for the benefit of others in the Company
- Unfailingly dedicated to fulfilling and exceeding the needs of the organization
- Acts to support McGraw-Hill Ryerson's culture and values
- Impacts organizational results significantly

Award: Gold Coin + $1,000 + Engraved Plaque
2001 Winner — Tom Gale, Information and Systems Technology Department

The Norma Christensen Editorial Excellence Award

Selection Criteria:

The person or team who best embodies

- The drive and perseverance to create great product with success in the marketplace
- An uncompromising commitment to quality
- The highest editorial standards

Award: $1,000
2001 Winner — The Business and Economics Team – Accounting Team (Larson): Katherine Goodes, Sayeeda Hussain, Christine Lomas, Nicole Lukach, Jeff MacLean, Mike Ryan, Erich Volk.

The Seary Award for Outstanding Sales

Selection Criteria:

- Sales success in meeting and exceeding the annual sales target
- Tenacity in the pursuit of meeting customer needs
- Working as an outstanding team player to keep their division successful
- Dedication to the culture of McGraw-Hill Ryerson
- Unfailing good humour

Award: $1,000
2001 Winner — Cam McDonald, School Division

The Heather Somerville Marketing Excellence Award

Selection Criteria:

The person or team who

- Develops, plans, and executes a successful marketing effort
- Demonstrates initiative, creativity, perseverance, and competitive drive

Award: $1,000
2001 Winner — Anne Curreri, School Division

The Theresa Courneyea Outstanding Service Award

Selection Criteria:

- The person or team that demonstrates the commitment to quality, teamwork, and creativity in meeting and exceeding the needs of customers

Award: $1,000
2001 Winner — Editorial, Design and Production Team (Higher Education): Paula Brown, Nicla Dattolico, Kelly Dickson, Madeleine Harrington, Margaret Henderson, Anne Macdonald, Anne Nellis, Jennifer Wilkie, Carrie Withers.

Throughout the year, 83 Employee Recognition Awards were presented to employees who made a significant contribution to the Company and are recommended to management by anyone in the Company.

Scholarships & Corporate Contribution Programs

Pat Vidler Scholarship

The Pat Vidler Scholarship was presented to three very deserving children of employees in 2001. They were:

Elizabeth Bassett, daughter of Sheila Bassett, Associate Editor – Mathematics, School Division. Elizabeth is attending George Brown College in the Graphic Design program. She is fortunate to have a small studio in her home with all the equipment and software necessary to complete her courses successfully.

Amy Challoner, daughter of Mary Agnes Challoner, Copy/Developmental Editor – Mathematics, School Division. Amy attends Trent University and is pursuing a four-year Bachelor of Arts degree. She plans to attend Teacher's College after graduation to prepare herself for a career in Early Childhood Education. While in high school, Amy did her work period at the day care within the school.

Ben Pryputniski, son of Miriam Abraham, Manager, Learning and Development, Human Resources Department. Ben is attending Centennial College in the Mechanical Technology program. He is looking forward to a career as a Mechanical Engineer. Ben was an honours student in high school and in addition to the McGraw-Hill Ryerson scholarship, has earned two bursaries and an additional scholarship.

Corporate Contribution Programs

McGraw-Hill Ryerson Limited believes Canadians will flourish in communities that are healthy, well-educated, culturally rich, and socially secure. The Company will support programs that increase the abilities of people in our communities to learn, to grow intellectually, to master new skills, and to maximize their individual talents for school, work, and community.

Matching Gift Program

The Company will match any employee's financial gift to any non-profit Canadian organization that supports education, learning, and literacy up to a maximum of $2,000 per employee per year (including the United Way matching contributions). In 2001, the Company matched five employee gifts for a total of $1,600.

United Way Program

McGraw-Hill Ryerson will match any employee's United Way contribution. When an employee contributes a day's pay to the United Way, he/she may take a paid day off work to perform volunteer work to support the activities of any non-profit organization or a worthy project in the community. In 2001, the Company matched employee contributions of $11,194.56.

Employee Volunteer Support Program

When an employee participates, on a regular basis, for a year or more, in a qualified program of volunteer support through schools and non-profit organizations (education, health or fitness, and social services) and has an ongoing commitment of at least fifty hours a year, McGraw-Hill Ryerson will support the program with a $300 contribution. In 2001, the Company supported three organizations for a total of $900.

There were also other donations given for $500 or less.

Directors

1. Robert J. Bahash
Executive Vice President – Chief Financial Officer,
The McGraw-Hill Companies, Inc. since 1988
Joined McGraw-Hill in 1974
Became a Director in 1988
Previous posts include:
Senior Vice President, Finance and Manufacturing
Senior Vice President, Corporate Financial Operations
Member of the Finance Committee

2. James G. Barnes
Professor of Marketing
Memorial University of Newfoundland since 1968
Became a Director in 1988
Previous posts include:
Dean, Memorial University – 1978-1988
Co-Founder and a Director – Bristol Group
Chairman of the Corporate Governance
and Nominating Committee
Member of the Audit Committee

3. J. Mark DesLauriers
Partner
Osler, Hoskin & Harcourt LLP
Joined Osler, Hoskin & Harcourt in 1983
Became a Director in 2001
Chairman of the Compensation Committee
Member of the Executive Committee

4. John D. Dill
President and Chief Executive Officer
McGraw-Hill Ryerson Limited
Joined McGraw-Hill Ryerson in 1993
Became a Director in 1993
Previous positions include:
President, John Wiley and Sons Canada Limited
Senior management positions at Holt Rinehart and Winston
Member of the Executive Committee
and the Finance Committee

5. Robert E. Evanson
President, McGraw-Hill Education,
The McGraw-Hill Companies, Inc. since 1999
Became a Director in 1998
Previous positions include:
Executive Vice President of the McGraw-Hill Education Group
President, Higher Education and Consumer Group
Executive Vice President, Corporate Development
Member of the Executive Committee and the Compensation Committee

6. Brian D. Heer
President, International Publishing Group
The McGraw-Hill Companies, Inc. since 1999
Became a Director in 2001
Previous positions include:
President, Prentice Hall Canada
Executive Vice President, International Thomson Publishing
Scientific, Technical, Medical and Professional Group in the U.S.
President and CEO of Van Nostrand Reinhold
Member of the Audit Committee

7. H. Ian Macdonald
Chairman of the Board of Directors of McGraw-Hill Ryerson Limited since 1996
Became a Director in 1985
President Emeritus and Professor of Economics and Public Policy at York University
Officer of the Order of Canada
Chairman of the Board of Governors of The Commonwealth of Learning
Chairman of the Finance Committee
Member of the Executive Committee, Corporate Governance and Nominating Committee, and the Compensation Committee

8. Manon R. Vennat
Vice President, Managing Director and Chairman, SpencerStuart in Montreal since 1986
Became a Director in 1988
Previous positions include:
Vice President, Administration, General Counsel and Secretary to the Board of Directors at AES Data
Member of the Bar of Quebec
Member of the Order of Canada
Chairman of the Audit Committee
Member of the Corporate Governance and Nominating Committee and the Compensation Committee

Officers

1. H. Ian Macdonald, O.C, LL.D.
Chairman of the Board appointment in 1996
Became a member of the Board in 1985
President Emeritus and Professor of Economics and Public Policy at York University

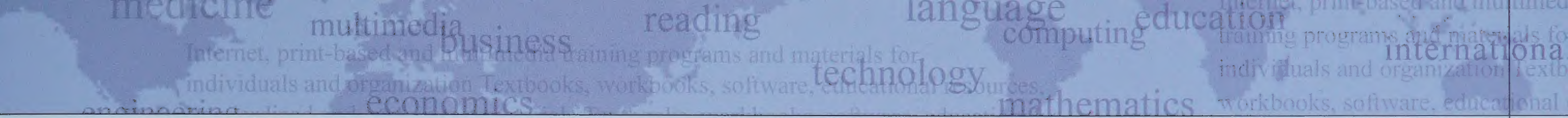
2. John D. Dill
President and Chief Executive Officer
Became an Officer in 1993
Previous positions include:
President, John Wiley and Sons Canada Limited
Senior management positions at Holt Rinehart and Winston

3. Poling Y. Chu
Executive Vice President, Chief Financial Officer and Secretary-Treasurer
Became an Officer in 2001
Prior Employment – Chief Financial Officer of a dot.com company and for nine years was Senior Vice President at Prentice-Hall Canada

4. Petra M. Cooper
President,
Higher Education Division
Became an Officer in 1997
Prior Employment – John Wiley and Sons U.S. as Vice President and National Sales Manager

5. Nancy L. Gerrish
President,
School Division
Became an Officer in 1999
Prior Employment – Director of Sales and Marketing for the School Division at McGraw-Hill Ryerson Limited

6. Marshall I. Morris
Executive Vice President,
Customer Satisfaction
Became an Officer in 1996
Prior Employment – Canadian Tire Corporation – held various management positions



7. Carl Posluns
Executive Vice President,
Human Resources
Became an Officer in 1994
Prior Employment – Vice President, Human Resources, Smithbooks (FICG Inc.)

8. Clive Powell
Executive Vice President,
Editorial, Design & Production
Became an Officer in 1997
Prior Employment – Director of Production at McGraw-Hill Ryerson Limited

9. Julia O. Woods
President,
Trade, Professional and Medical Division
Became an Officer in 1994
Prior Employment – Vice President, Professional Reference and Trade at John Wiley and Sons Canada Limited

Shareholder and Corporate Information

Executive Offices

McGraw-Hill Ryerson Limited
300 Water Street
Whitby, Ontario L1N 9B6
Telephone: (905) 430-5000
Facsimile: (905) 430-5020
http://www.mcgrawhill.ca

Corporate and Shareholder Information

Poling Y. Chu
Secretary-Treasurer
Telephone: (905) 430-5032

Annual and Special Meeting of Shareholders

Kensington Room
Le Royal Meridien King Edward Hotel
Toronto, Ontario
Tuesday, June 11, 2002
at 11:00 a.m.

Exchange Listings

The Toronto Stock Exchange
Stock Symbol: MHR

Outside Legal Counsel

Osler, Hoskin & Harcourt LLP
Barristers & Solicitors
Toronto

Auditors

Ernst & Young LLP
Chartered Accountants
Toronto

Bankers

Citibank Canada

Registrar and Transfer Agent

Investors are encouraged to contact our Transfer Agent and Registrar, CIBC Mellon Trust Company, for information regarding their security holdings. They can be reached at:

CIBC Mellon Trust Company

P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9

AnswerLine™

(416) 643-5500 or 1-800-387-0825
(Toll Free throughout North America)
Facsimile: (416) 643-5501
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Manager, Investor Relations: Joyce Lloyd
Design and Formatting: Dianna Little
Officer Photos: Rodney Daw
Graphs: Hornet Media
Website Design: Sapiens Internet Marketing Associates

Dividends

Dividend Policy

Dividends have been paid on the common shares of the Company at an annual rate of fifty-four cents (54¢) per share since this rate was established with the quarterly payment of thirteen and one-half cents (13.5¢) per share on February 24, 2000. The Board of Directors approved an increase in the quarterly dividend to 15¢ per share at their meeting held on April 18, 2002 to shareholders of record as at May 3, 2002. This dividend increase will take effect with the payment of the first quarter dividend on May 24, 2002.

The determination to declare or pay dividends is entirely at the discretion of the Board of Directors of the Company, based upon recommendations from the Finance Committee of the Board of Directors, and will depend upon the Company's financial condition, results of operations, capital requirements, and such other factors as the Board of Directors and Finance Committee consider relevant.

Comparison: Net Profit/Share Price/Dividend Payout

International Affiliates

The McGraw-Hill Companies, Inc.
New York, New York

McGraw-Hill Australia Pty. Limited
Sydney, N.S.W., Australia

Tata McGraw-Hill Publishing Company Private Limited
New Delhi, India

McGraw-Hill Book Company New Zealand, Pty. Limited
Auckland, New Zealand

McGraw-Hill Education Asia
Singapore

McGraw-Hill International (U.K.) Limited
Maidenhead, England

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Milan, Italy

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Athens, Greece

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Madrid, Spain

McGraw-Hill/Interamericana de Venezuela S.A.
Caracas, Venezuela

McGraw-Hill (Malaysia) Sdn. Bhd
Selangor, Malaysia

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Metro Manila, Philippines

McGraw-Hill/Interamericana de Chile Limitada
Santiago, Chile

McGraw-Hill/Interamericana, Inc.
Rio Piedras, Puerto Rico

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Seoul, Korea

McGraw-Hill International Enterprises, Inc.
Johannesburg, South Africa

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Kowloon, Hong Kong

McGraw-Hill International Enterprises, Inc.
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